

News Release

THE FEDERAL RESERVE BANK *of* KANSAS CITY

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TENTH DISTRICT MANUFACTURING SURVEY POSTED CONTINUED SOLID GROWTH *Federal Reserve Bank of Kansas City Releases February Manufacturing Survey*

KANSAS CITY, Mo. –The Federal Reserve Bank of Kansas City released the February Manufacturing Survey today. According to Chad Wilkerson, vice president and economist at the Federal Reserve Bank of Kansas City, the survey revealed that the Tenth District manufacturing survey posted continued solid growth, and expectations for future activity increased moderately.

“February was another good month for factories in our region,” said Wilkerson. “A rising number of firms reported higher input and selling prices.”

A summary of the February survey is attached. Results from past surveys and release dates for future surveys can be found at www.kansascityfed.org/research/indicatorsdata/mfg.

The Federal Reserve Bank of Kansas City serves the Tenth Federal Reserve District, encompassing the western third of Missouri; all of Kansas, Colorado, Nebraska, Oklahoma and Wyoming; and the northern half of New Mexico. As part of the nation’s central bank, the Bank participates in setting national monetary policy, supervising and regulating numerous commercial banks and bank holding companies, and providing financial services to depository institutions. More information is available online at www.kansascityfed.org.

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TENTH DISTRICT MANUFACTURING SUMMARY

The Tenth District manufacturing survey posted continued solid growth in February, and firms' expectations for future activity increased moderately. Most price indexes rose further, with some indexes at their highest levels in seven to ten years.

The month-over-month composite index was 17 in February, higher than 16 in January and 13 in December (Tables 1 & 2, Chart 1). The composite index is an average of the production, new orders, employment, supplier delivery time, and raw materials inventory indexes. Factory activity grew at both durable and non-durable goods plants, particularly for metals, machinery, and plastics products. Most month-over-month indexes also increased. The shipments, new orders, and employment indexes all rose moderately. The order backlog index fell from 20 to 13, and the new orders for exports index also eased somewhat. The raw materials inventory index decreased from 15 to 8, while the finished goods inventory index was basically unchanged.

Most year-over-year factory indexes were higher in February. The composite index rose from 35 to 38, and the production, shipments, new orders, and order backlog indexes also increased. The employment index climbed from 31 to 39, and the capital expenditures index inched slightly higher. The raw materials inventory index fell from 38 to 23, while the finished goods inventory index increased slightly.

Future factory activity expectations improved moderately over the previous month. The future composite index rose from 29 to 38, and the future production, shipments, new orders, and order backlog indexes also increased. The future employment index jumped from 33 to 41, while the future capital expenditures index moved slightly lower. The future raw materials inventory index increased from 15 to 23, while the future finished goods inventory index decreased modestly.

Most price indexes continued to increase in February. The month-over-month finished goods price index rose from 21 to 26, and the raw materials price index increased considerably, with both reaching their highest levels in the last seven to nine years. The year-over-year finished goods price index edged up from 49 to 51, its highest level since September 2011, and the year-over-year raw materials price index moved moderately higher. The future finished goods price index climbed from 44 to 53, reaching a ten-year high, and the future raw materials price index jumped to its highest level in seven years.

SELECTED COMMENTS

“There is cautious optimism for the upcoming months. The tax and wage reform law has helped with Cap Ex. However, it is hard to get a bounce up in productivity due to employee turnover, which results in more training. In house training programs can be done, but harder to implement and manage with small business. Trying to automate entry level positions.”

“This will be a challenging and exciting year. Growth opportunities are there but we have to protect our margins and find labor to support those opportunities as well as find suppliers that provide materials on time at competitive costs.”

“Wages are going to have to increase but we are also seeing big increases in our health insurance rates which will impact what we can do with wages.”

“While business is good, much is due to innovations we have created that have expanded our product lines and capabilities. We have an aggressive capital spending plan that is being assisted by the recent tax cut, even though that aggressive plan doesn't include many projects we would like to pursue. We are giving a significant portion of our first year tax cut to our employees in the form of a special bonus and enhancing longer-term incentive plans.”

“If the amount of activity seen in the first month and a half of 2018 continues at it current pace, this could be the best year in the 33 year history of our company.”

“Raw materials are becoming in short supply, and prices seem to be on the edge of increasing significantly. Qualified workers are virtually non-existent with availability increasingly less and less. Overall, inflation on the way.”

Table 1
Summary of Tenth District Manufacturing Conditions, February 2018

Plant Level Indicators	February vs. January (percent)*					February vs. Year Ago (percent)*				Expected in Six Months (percent)*				
	Increase	No		Diff	SA	Increase	No		Diff	Increase	No		Diff	SA
		Change	Decrease				Change	Decrease			Change	Decrease		
Composite Index				16	17				38				35	38
Production	40	39	21	19	21	67	18	15	51	66	23	11	55	56
Volume of shipments	38	46	16	21	24	70	13	17	54	65	21	15	50	49
Volume of new orders	40	36	24	17	16	69	18	13	55	62	23	15	47	49
Backlog of orders	36	43	21	14	13	59	29	12	47	45	40	15	30	32
Number of employees	33	54	13	20	23	54	31	15	39	46	46	8	37	41
Average employee workweek	23	63	14	8	11	40	48	13	28	37	53	10	27	25
Prices received for finished product	28	69	3	24	26	58	35	7	51	51	48	1	50	53
Prices paid for raw materials	50	48	2	48	50	74	22	4	71	69	30	1	68	73
Capital expenditures						50	37	13	37	48	41	11	36	36
New orders for exports	9	83	8	1	2	24	69	6	18	18	76	5	13	16
Supplier delivery time	23	67	10	13	16	31	58	11	20	26	64	10	16	18
Inventories: Materials	33	45	23	10	8	44	35	21	23	35	50	15	21	23
Inventories: Finished goods	27	51	23	4	4	42	35	23	18	30	48	22	8	11

*Percentage may not add to 100 due to rounding

^Diffusion Index. The diffusion index is calculated as the percentage of total respondents reporting increases minus the percentage reporting declines.

*^Seasonally Adjusted Diffusion Index. The month vs. month and expected-in-six-months diffusion indexes are seasonally adjusted using Census X-12.

Note: The February survey included 86 responses from plants in Colorado, Kansas, Nebraska, Oklahoma, Wyoming, northern New Mexico, and western Missouri.

Chart 1. Composite Index vs. a Month Ago

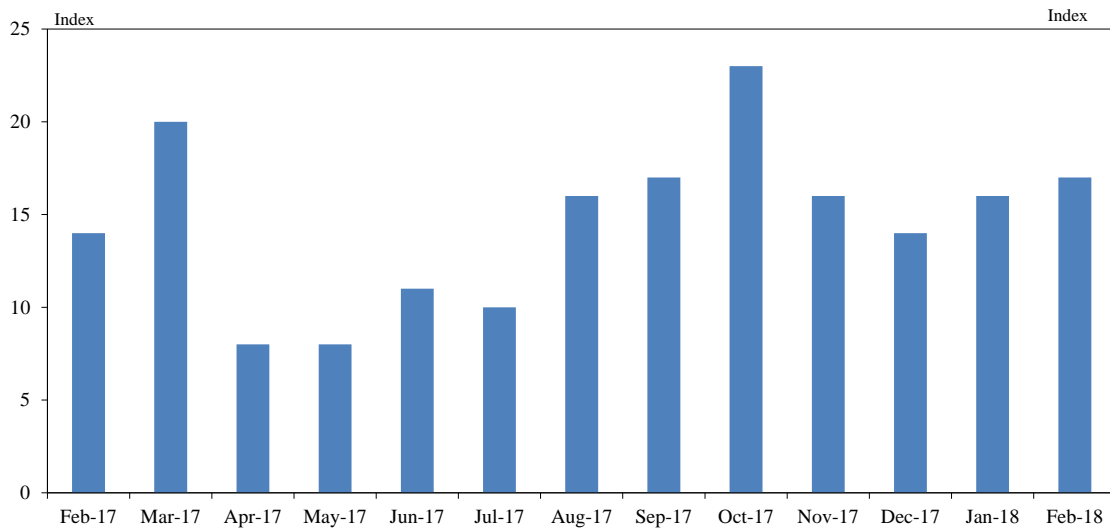


Table2
Historical Manufacturing Survey Indexes

	Feb'17	Mar'17	Apr'17	May'17	Jun'17	Jul'17	Aug'17	Sept'17	Oct'17	Nov'17	Dec'17	Jan'18	Feb'18
Versus a Month Ago (seasonally adjusted)													
Composite Index	14	18	10	9	12	12	16	18	22	15	13	16	17
Production	13	33	15	1	22	10	22	21	18	15	16	16	21
Volume of shipments	17	34	14	3	22	0	23	24	20	19	10	14	24
Volume of new orders	24	23	11	11	8	13	24	15	24	19	11	14	16
Backlog of orders	17	19	8	12	-5	1	13	9	22	13	8	20	13
Number of employees	16	13	11	12	15	16	14	18	19	16	16	18	23
Average employee workweek	13	11	-3	4	8	4	9	7	10	6	10	2	11
Prices received for finished product	3	8	6	8	-1	6	8	12	11	11	11	21	26
Prices paid for raw materials	26	28	33	19	19	20	23	25	22	24	15	34	50
Capital expenditures	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
New orders for exports	9	2	3	4	3	-2	4	6	6	-1	4	6	2
Supplier delivery time	7	4	7	13	9	10	10	22	19	8	13	18	16
Inventories: Materials	11	14	4	5	4	11	10	13	28	16	7	15	8
Inventories: Finished goods	5	12	7	2	-1	5	2	-6	18	3	-8	3	4
Versus a Year Ago (not seasonally adjusted)													
Composite Index	6	14	13	18	28	24	23	35	34	37	30	35	38
Production	3	17	19	20	43	28	27	56	41	51	36	40	51
Volume of shipments	7	14	17	16	39	33	29	49	42	49	39	39	54
Volume of new orders	15	30	16	28	35	38	27	47	45	41	38	37	55
Backlog of orders	10	16	20	27	20	22	18	37	34	42	20	42	47
Number of employees	-2	17	15	19	24	23	22	30	30	32	35	31	39
Average employee workweek	-3	6	0	13	11	15	20	31	26	35	28	30	28
Prices received for finished product	14	26	30	16	15	20	29	38	33	35	37	49	51
Prices paid for raw materials	28	37	50	45	48	45	48	56	61	64	55	65	71
Capital expenditures	15	12	5	16	13	15	21	26	21	19	39	34	37
New orders for exports	-1	4	11	5	7	0	9	10	9	9	8	15	18
Supplier delivery time	10	7	14	15	15	19	23	27	26	18	25	27	20
Inventories: Materials	4	1	4	8	22	10	18	16	30	45	15	38	23
Inventories: Finished goods	-5	4	-3	17	11	7	6	2	15	28	8	15	18
Expected in Six Months (seasonally adjusted)													
Composite Index	30	31	19	30	25	21	24	26	30	26	23	29	38
Production	43	50	29	48	42	31	39	40	45	42	29	37	56
Volume of shipments	40	51	32	44	39	36	39	39	42	38	28	32	49
Volume of new orders	38	41	18	43	38	28	39	29	47	32	24	36	49
Backlog of orders	16	28	14	31	14	13	20	21	31	26	13	30	32
Number of employees	31	43	29	28	32	28	27	28	33	30	36	33	41
Average employee workweek	18	11	8	17	11	17	2	9	27	14	10	23	25
Prices received for finished product	24	27	27	26	23	13	30	29	31	38	31	44	53
Prices paid for raw materials	52	56	47	36	49	40	41	42	44	59	49	58	73
Capital expenditures	26	33	11	23	17	18	19	15	21	19	22	38	36
New orders for exports	14	9	11	16	12	0	5	9	15	8	9	19	16
Supplier delivery time	18	13	14	22	12	14	13	16	10	14	18	25	18
Inventories: Materials	22	9	6	10	3	6	-1	14	16	12	7	15	23
Inventories: Finished goods	25	7	13	14	8	15	-5	10	14	9	12	19	11